

**Report on Noncompliance
With Cost Accounting Standard 414**

February 2003

Reference Number: 2003-1C-057

**This report has cleared the Treasury Inspector General for
Tax Administration disclosure review process and
information determined to be restricted from public release
has been redacted from this document.**



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 25, 2003

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

A handwritten signature in cursive script that reads "Daniel R. Devlin".

FROM: Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: Report on Noncompliance With Cost Accounting Standard 414
(Audit #200310002.021)

The Defense Contract Audit Agency (DCAA) performed an audit regarding the contractor's compliance with the Cost Accounting Standards (CAS) and the Federal Acquisition Regulation (FAR). The purpose of the examination was to determine if the contractor had complied with the requirements of CAS 414 (Cost of Money as an Element of the Cost of Facilities Capital) and the FAR Part 31.205-10 (Cost of Money) in accounting for measuring and allocating an appropriate share of the cost of money which can be identified with the facilities employed in a business. By performing government contracts covered by government regulations, the contractor asserts that its cost accounting practices comply with the CAS Board's rules, regulations, and standards.

The DCAA opined that during the contractor's Fiscal Year 2000 and forward, the contractor is in noncompliance with CAS 414 and the FAR Part 31.205-10. The cited instance of noncompliance currently has an immaterial impact on the contractor's claimed cost of money amounts. However, if the noncompliance is not corrected, it may have a more material impact in the future.

The DCAA recommends that the contractor's Civil Group separately carry and record facility capital items on the books of each business unit where the assets are used in the course of regular business activity. However, the DCAA stated that if the contractor wants to continue accounting for assets at the Civil Home Office, it should specifically identify the asset values and depreciation to the business units where they are being used in the normal course of business.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

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